

## **SECTION J**

### **ATTACHMENT J-4**

#### **INCENTIVE FEE TASK ORDERS**

Task Orders may be issued as either fixed fee or incentive fee task orders at the option of the Contracting Officer, in coordination with the Contracting Officer's Representative. The decision concerning task order type shall be made on a case-by-case basis at the sole discretion of the Government. The task order type shall be identified in each task order. The established task order type shall not subsequently be changed.

#### **Incentive Fee Task Orders.**

1. An incentive fee pool calculated in accordance with the following subparagraphs shall be available for payment on each task order. The fee pool rate shall not exceed the fee rate included in Section B, The Rate Schedule, is available for payment. The Contractor may elect to propose a lower fee rate for individual task orders.
3. The fee pool shall be divided into two parts (the split ratio), with part of the fee pool available for performance in terms of customer satisfaction (Part I Performance Pool), and part of the fee pool available for cost control (Part II Cost Control Pool). The range of the split ratio shall be from 50/50 to 90/10, depending upon the task effort. The split ratio between Part I and Part II pools shall be identified in each incentive fee task order. The Contractor has the opportunity to obtain fee greater than, equal to, or less than, established target fees, depending upon its performance on the task order in the areas of customer satisfaction and cost control.
4. The negotiated target costs (total estimated costs) shall be multiplied by the fee rate (not to exceed the rate in Section B). The first number in the split ratio shall be the percentage of the total fee amount included in the Part I Performance Pool and the second number in the split ratio shall be the percentage included in the Part II Cost Control Pool. Calculated amounts shall be rounded to the nearest dollar.

Example: Assume that the fee rate in Section B is 8%, that the target costs (i.e., negotiated total estimated costs) are \$200,000, and the split ratio is 70/30. The available fee pool would be \$16,000. The Part I Performance Pool would be \$11,200 (\$16,000 x .70), and the Part II Cost Control Pool would be \$4,800

(\$16,000 x .30).

Note: Subsequent ~~examples~~ build on each other. See also the example calculations sheet at the end of this attachment.

5. Calculation of Part I Performance Pool.

- a. Maximum fee amount. The maximum fee amount is the 100% of the available Part I Performance Pool amount.
- b. Target fee amount. The target fee amount is equal to 80% of the maximum fee amount.
- c. Minimum fee amount. The minimum fee amount is zero (\$0).

Example: Assume that the available Part I Performance Pool amount is \$11,200. The maximum fee amount would be \$11,200 (100% of the available Performance Pool amount); the target fee amount would be \$8,960 ( $\$11,200 \times .80$ ); and the minimum fee amount would be \$0.

6. Calculation of Part II Cost Control Pool.

- a. Maximum fee amount. The maximum fee amount is equal to 120% of the available Part II Cost Control Pool amount.
- b. Target fee amount. The target fee is equal to 100% of the available Part II Cost Control Pool amount.
- c. Minimum fee amount. The minimum fee amount is zero (\$0).

Example: Assume that the available Part II Cost Control Pool amount is \$4,800. The maximum fee amount would be \$5,760 ( $\$4,800 \times 1.20$ ); the target fee amount would be \$4,800 (100% of the available Cost Control Pool amount); and the minimum fee amount would be \$0.

7. Part I Performance Pool Earned Fee Calculations. The Contractor shall be evaluated for customer satisfaction. Each task over 90 days in duration shall be evaluated quarterly by the Contracting Officer's Representative (COR). Each task shall be evaluated by the COR within 30 days after completion of the task performance period.
- a. The amount of the Part I Performance Pool earned by the Contractor shall be

evaluated and calculated in the following manner. The Government's decision regarding the amount of fee earned on each incentive fee task order shall not be subject to the ~~Disputes~~ clause of this contract.

<u>Calculated Fee Point Score</u>	<u>Rating</u>	
0%	0 - 2	Unsatisfactory. The Contractor failed to accomplish the work assigned under the task, or the product is not useable as delivered. The task requires either extensive rework or must be started over. Contractor failed to meet customer service expectation elements.
30%	3-4	Needs improvement. The Contractor completed the task, but the deliverable requires some rework and/or additional time in order to meet the specifications or to make the product useable. Delays may result from the Contractor's failure to perform satisfactorily. Contractor partially met some customer service expectation elements.
60%	5-6	Partially acceptable. The Contractor completed the task, but the deliverable requires some rework or additional time to complete. Level of service and quality of product is below expectations. Contractor met some customer service expectation elements.
80%	7-8	Satisfactory. The Contractor completed the task on schedule and the product meets the Government's requirements. Minimal rework due to Contractor's performance is experienced. Level of service and quality of product meet expectations. Contractor met the majority of the customer service expectation elements.
100%	9-10	Outstanding. The Contractor completed the task within schedule. The level of service and quality of product exceed expectations.

Contractor displays ingenuity in the conduct of the work and/or the utility of the product.  
Contractor met all the customer service expectation elements.

Example: \$11,200 is available in the Part I Performance Pool. Assume that the Contractor receives a customer satisfaction performance rating of 6. The Contractor would earn \$6,720 ( $\$11,200 \times .60$ ) of the Part I Performance Pool amount.

8. Customer service expectation elements. Customer service expectation elements include, but are not limited to, the following: actual performance level, quality of service and product, competence, technical expertise, knowledgeable frame of reference (project understanding), compliance with safety requirements, stability of personnel assigned to task projects, minimal ~~Atag-team@~~ approach, consistency between the task proposal and actual work, efficient use of resources, defensible work, appropriate level of communication with government staff, coordination with designated COR, responsiveness and completeness of response, proactiveness when problems encountered (define options and recommendations), willingness to team on solutions, lack of empty promises, minimal oversight required, timeliness and accuracy (descriptive and cost portions) of monthly reports, and adequacy of administrative abilities.
9. Part II Cost Control Pool Earned Fee Calculations. The amount of Cost Control Pool fee earned by the Contractor is dependent upon the Contractor=s ability to control costs.
  - a. Costs equal to task order target costs: In the event the cost of performance is equal to the task order target cost (total estimated costs), the Contractor shall be entitled to the target fee profit.
  - b. Cost underruns. In the event of a cost underrun, the Contractor shall be entitled to all the cost savings on a dollar-for-dollar basis up to the maximum fee amount. Any cost savings which exceed the maximum Cost Control Pool fee amount shall be shared by the Government and the Contractor based upon a government/contractor share ratio of 80/20, up to a maximum of 25% of the target cost amount. This ratio means the Government shall keep 80% of the cost savings which exceed the maximum fee amount available for the task, while the Contractor shall be entitled to 20% of those savings as additional fee. Savings in excess of 25% of the target cost amount shall be retained by the Government. A

cost underrun is the amount billed and allowed to the Contractor for the completion of a task order (excluding fee) which (1) is less than the task order target cost, and (2) is not attributable to any other cause of decreased costs (e.g., scope of work changes).

- c. Cost overruns. In the event of a cost overrun, the overrun shall reduce the target fee in accordance with a government/contractor share ratio of 80/20. This ratio means that 20% of any cost overrun shall reduce the amount of the target fee. This calculation shall not result in a cost control fee amount less than zero (the minimum fee amount). A cost overrun is the amount billed and allowed to the Contractor for the completion of a task order (excluding fee) which (1) exceeds the task order target cost, and (2) is not attributable to any other cause of increased costs (e.g., scope of work changes).

Example: Assume that the target costs are \$200,000 and the amount billed to the task order (excluding fees) is \$195,000. The amount billed results in a cost underrun of \$5,000. The maximum fee amount is \$5,760. Therefore, the Contractor is entitled to an additional fee (over the target fee) amount of \$960 on a dollar-for-dollar basis. The Contractor is further entitled to \$808 ( $\$4,040 \times .20$ ) as its share ratio portion. The total Part II Cost Control fee earned is \$6,568 ( $\$5,760 + \$808$ ). The billed amount at which the underrun maximum savings threshold would be effective would be \$150,000 ( $\$200,000 - (\$200,000 \times .25)$ ).

10. Total fee. Total fee received shall be equal to the calculated sums of the Part I and Part II fee pools. The Contractor cannot be paid a fee in excess of the statutory limitation of 10%, including incentives. The Government's decision regarding the amount of fee earned on each task order shall not be subject to the ~~Disputes~~ clause of this contract.

Example: Total calculated fee for the preceding examples would be \$13,288 (Part I \$6,720 + Part II \$6,568).

**EXAMPLES CALCULATION SHEET****CALCULATING THE FEE POOLS**1. Assumptions for the purpose of these examples

Total estimated costs	\$200,000
Split ratio	70/30
Fee rate in Section B	8%

2. Calculation of available fee pool:

Total Estimated costs	\$200,000
Fee rate	$\times .08$
Available fee pool	\$ 16,000

3. Calculation of Part I Performance Pool

Available fee pool	\$ 16,000
Performance pool ratio (70%)	$\times .07$
Performance pool amount	\$ 11,200

## a. Maximum performance pool fee amount

Performance pool amount	\$ 11,200
Maximum percentage (100%)	$\times 1.0$
Maximum fee amount available	\$ 11,200

## b. Target performance pool fee amount

Performance pool amount	\$ 11,200
Target percentage (80%)	$\times .08$
Target fee amount available	\$ 8,920

## c. Minimum performance pool fee amount

Performance pool amount	\$ 11,200
Minimum percentage (0%)	$\times .00$
Minimum fee amount available	\$ 0

4. Calculation of Part II Cost Control Pool

Available fee pool		\$ 16,000
Cost control pool ratio (30%)	$\times$	<u>.03</u>
Cost control pool amount		\$ 4,800

## a. Maximum cost control pool fee amount

Cost control pool amount		\$ 4,800
Maximum percentage (120%)	$\times$	<u>1.2</u>
Maximum fee amount available		\$ 5,760

## b. Target performance pool fee amount

Cost control pool amount		\$ 4,800
Target percentage (100%)	$\times$	<u>1.0</u>
Target fee amount available		\$ 4,800

## c. Minimum performance pool fee amount

Cost control pool amount		\$ 4,800
Minimum percentage (0%)	$\times$	<u>.00</u>
Minimum fee amount available		\$ 0

## CALCULATING EARNED FEE

5. Assumptions concerning earned fee for the purpose of these examples

The available fee pools, maximum, target, and minimum amounts are those amounts calculated in paragraphs 1 through 4 above.

The customer satisfaction rating for Part I Performance Pool was a 4.6.

6. Calculation of Part I Performance Pool earned fee amount

Performance pool amount		\$ 11,200
% associated with a 4.6" rating (60%)	$\times$	<u>.60</u>
Amount of Performance pool earned		\$ 6,720

7. Calculation of Part II Cost Control Pool earned fee amount

Cost control pool amount	\$ 4,800
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a. Calculation if cost of performance equals the target costs

Cost control pool amount	\$ 4,800
Target fee (100%)	<u>x 1.0</u>
Amount of cost control pool fee earned	\$ 4,800

b. Calculation if cost of performance is less than the target costs (cost underrun)

Contractor receives cost savings on a dollar-for-dollar basis up to the maximum fee amount.

Cost control pool amount	\$ 4,800	
Maximum fee (120%)	<u>x 1.2</u>	
Amount of cost control pool fee earned	\$ 5,760	(or \$960 over the target amount)

Plus: Contractor shares cost savings with Government on an 80/20 share ratio, up to a maximum of 25% of the target cost amount.

So, if the target cost was \$200,000, and cost of performance was \$195,000, a \$5,000 underrun occurred.

Then,

Underrun amount	\$ 5,000
Less fee earned over target	<u>- 960</u>
Amount available for sharing	4,040
Contractor=s share (20%)	<u>x .20</u>
Shared amount earned	\$ 808

And,

Total amount of fee earned on the underrun

Maximum fee	\$ 5,760
Shared amount	<u>+ 808</u>
Total Cost Control fee earned	\$ 6,568

c. Calculation if cost of performance is more than the target costs (cost overrun)



Contractor shares cost overrun with the Government on an 80/20 basis, until the minimum fee amount (i.e., zero fee) is reached.

So, if the target cost was \$200,000, and cost of performance was \$205,000, a \$5,000 overrun occurred.

Then,

Overrun amount	\$ 5,000
Contractor's share (20%)	<u>x .20</u>
Shared amount reduction	\$ 1,000

And,

Target fee amount	\$ 4,800
Less shared amount reduction	<u>- 1,000</u>
Amount of cost control pool fee earned	\$ 3,800

8. Calculation of total incentive fee earned

Using the figures calculated in 1 through 7 above,

a. If cost of performance equals the target costs

Performance pool fee earned	\$ 6,720
Cost control pool fee earned	<u>+ 4,800</u>
Total fee earned	\$ 11,520

b. If cost of performance is less than the target costs (underrun)

Performance pool fee earned	\$ 6,720
Cost control pool fee earned	<u>+ 6,568</u>
Total fee earned	\$ 13,288

Note: In order to be in compliance with statutory fee limitations, total fee in an underrun situation could not exceed \$20,000 (10% of the total estimated costs of \$200,000)

c. If cost of performance is more than the target costs (overrun)

Performance pool fee earned	\$ 6,720
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Cost control pool fee earned	<u>+ 3,800</u>
Total fee earned	\$ 10,520